

ABACUS CITIES LTD.

ANNUAL REPORT 1977



1976

1975

1974

1973

1972

1971

1970



ABACUS IS:

a public company engaged in the creation of business and investment opportunities for professionals, executives, and self-employed persons, as well as the Company's own account. Abacus is primarily engaged in causing the development of land, multi-family housing, shopping centres and office buildings.

ABACUS ACHIEVED:

a five year annual compound growth rate in earnings of 145% to the end of 1977 - reportedly the best in Canada.

HIGHLIGHTS - 1977

FINANCIAL

	1977	Increase	1976
Net Earnings	\$ 9,465,000	98%	\$ 4,792,000
Cash Flow	\$ 18,524,000	96%	\$ 9,434,000
Total Assets	\$244,382,000	167%	\$91,685,000
Total Revenues	\$100,168,000	167%	\$37,507,000
Client Projects Under Development	\$136,242,000	194%	\$46,293,000
Shareholders' Equity	\$ 27,534,000	234%	\$ 8,232,000
Shareholders' and Client Equity	\$ 68,812,000	142%	\$28,423,000

COMMON SHARE DATA

Net Earnings per share	\$.63	80%	\$.35
Cash Flow per share	\$ 1.26	83%	\$.69
Common Shareholders' Equity per share (1)	\$ 1.17	110%	\$.56
Price Range (2)	1977	1976	1975
	High Low	High Low	High Low
Quarter Ended:			
March 31	\$5.00 \$3.50	\$1.15 \$.52	\$.22 \$.20
June 30	\$4.95 \$4.20	\$4.00 \$1.10	\$.25 \$.21
September 30	\$4.70 \$3.50	\$6.00 \$2.95	\$.33 \$.24
December 31	\$8.00 \$4.35	\$4.00 \$3.05	\$.52 \$.33
Dollar Volume Trading on Exchange (3)	\$ 5,012,200	\$ 2,790,300	\$ 159,200
Share Volume on Exchange (4)	983,498	465,351	25,588
Number of Common Shareholders	1022	783	293
Common Shares Outstanding - Year End	14,742,700	14,742,700	459,474
Common Share Dividends	\$ 413,000	\$ 202,000	\$ 155,000

(1) Does not include \$10,356,000 in Preference Shares issued in 1977, as detailed in Note 13 to the Consolidated Financial Statements.

(2) Prices have been restated to reflect the 5:1 share split effective March 3, 1976 and the 5:1 share split effective July 15, 1976.

(3) Estimate by the Alberta Stock Exchange.

(4) Figures have not been restated to reflect the two stock splits in 1976.



OPERATIONAL

- Assets' appraised value tops quarter billion dollar mark.
- Over 50 commercial and residential projects under development.
- Projects under development exceed \$160 million in value.
- Major management performance participation program created.
- Value of portfolio property and land holdings increases fivefold.
- Drilling fund generates \$40 million in gas reserves with \$2 million cash equity.
- Most investments offered, including real estate, now under securities jurisdiction.
- St. Albert Regional Shopping Centre commenced in joint venture with Hudson's Bay.
- \$20 million of commercial, office and apartment buildings acquired in Winnipeg.
- 5 year annual compound growth rate in net earnings is 145%.
- 5 year annual compound growth rate in assets is 113%.
- Cash flow return on shareholders' equity appears best in Canada at 225%.



Abacus takes Annual & Client Meetings to its public.

1978 promises to be a very good year financially. Of equal importance, implementing our corporate programs will ensure a very challenging and interesting year for the people who make up our organization.

In conclusion we again thank our friends - our employees, shareholders, clients, suppliers, financiers and others who, in 1977, worked with us or supported us in achieving our planned objectives for the eighth consecutive year.

Cordially yours,

Kenneth D. Rogers,

William H. Rogers,

On behalf of
the Board of
Directors

February 27, 1978

ABACUS AND REVENUE CANADA

THE PRESENT

As most people are aware, we have been discussing the merits of our clients' tax positions with officials of Revenue Canada for years. We cannot report that this matter is resolved completely and, despite meaningful progress, we now expect that it may never be totally resolved, due to continuous changes in both the Income Tax Act and in the objectives and strategies of the Department.

For example, as a mid - 1977 strategy, Revenue Canada reassessed development expenses claimed by a group of one hundred of our developer/clients. We have now made our second major representation to Revenue Canada in support of our position and are continuing our negotiations and aggressively pursuing resolution of these, as well as a number of other outstanding Notices of Objection.

We feel confident that 1978 will produce some successful conclusions and no major setbacks. We make this statement on the basis of:

1. The precedents which have been established through numerous Advance Rulings from the Tax Department for equivalent deductions;
2. The support of segments of our position by a number of Tax Department publications;

3. The existence of formal written settlements from the Justice/Tax Departments for some individual Abacus clients in prior years for essentially the same deductions now under dispute;
4. Our logical and assiduous interpretation of the Income Tax Act.

THE FUTURE

We feel that some parts of the Act applicable to real estate will ultimately undergo legislative changes. However, real estate should remain in a relatively favourable position for tax deferral and investment purposes and we will continue its use. In the event of any major legislative changes, the many small businessmen, professionals and executives, including the current clients of Abacus, will still be very interested in finding new means of deferring or reducing some of the very onerous taxes now imposed.

We are confident that we can quickly adjust to any changes in the Income Tax Act to provide the then best available tax deferral investments. In addition, it should be noted that Abacus has moved very strongly into most types of real estate development, oil and gas drilling, and other areas of investment as well as investment financing.

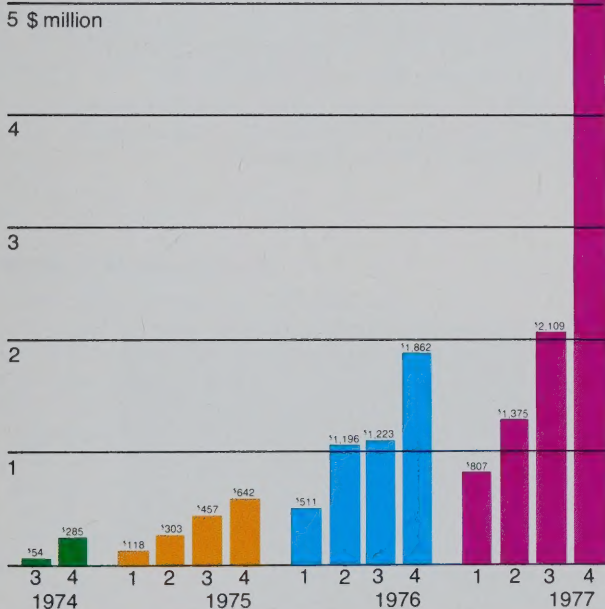
FINANCIAL REVIEW

Net Earnings by Quarter

We have in the past emphasized that our earnings typically peak in the fourth quarter of the year. An analysis of our earnings by quarter provides striking proof of this fact. Since the listing of Abacus common shares on the Alberta Stock Exchange in September of 1974, our shareholders have been witness to an annual compound growth in earnings of 145%. Our quarterly earnings have paralleled this growth, in every instance surpassing those of the same quarter of the previous year.

The tendency to year end peaks is attributable to the tax-related nature of the Abacus investment, and in 1977 was accentuated by the introduction of government requirements necessitating the use of an approved prospectus in the sale of tax deferral real estate to the public. We expect that an annual cycle from a first quarter low to a fourth quarter high will continue to characterize our earnings.

Net Earnings by Quarter



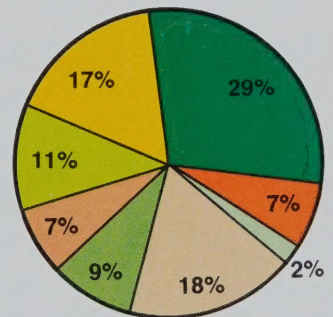
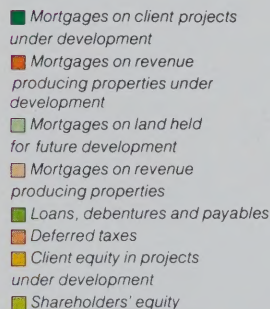
Debt / Equity Analysis

Of every dollar used to finance Abacus' operations, debt comprises only 65¢. Approximately one third of the balance is provided by the shareholders of the Company. The remaining 24¢ comprises deferred taxes and client equity, both of which are difficult to readily classify as either debt or equity, especially when these funds are utilized as short-term working capital.

As a result of having pioneered the developer/client concept, we are without a precedent in the case of client equity. These funds possess the critical attributes of shareholders' equity; they are invested in real estate on the expectation of earning returns commensurate with the level of risk involved, and the liability of Abacus with respect to the equity of clients is limited to fulfilling the conditions of the service contract. Once this is done, all liability is assumed by the developer/clients, who may then exercise their right to liquidate the real property on the open market, as shareholders may similarly elect to sell their shares.

We believe that the case for treating these client funds as equity is stronger than that for deferred taxes, and our debt to equity ratio of 2.5 to 1 is calculated in accord with this belief. If deferred taxes are included as equity, this ratio is 1.9 to 1. To the best of our knowledge these figures are the lowest among major property development companies in Canada. We are particularly pleased with the resultant high liquidity and low risk of our construction and development operations.

The calculation of a traditional debt to equity ratio, on the basis of shareholder equity only, yields a figure of 7.9 to 1. This is well in line with the industry average of roughly 7.5 to 1.

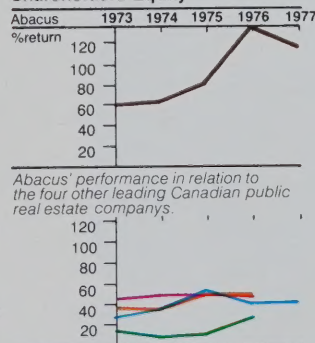


Return on Shareholder's Equity

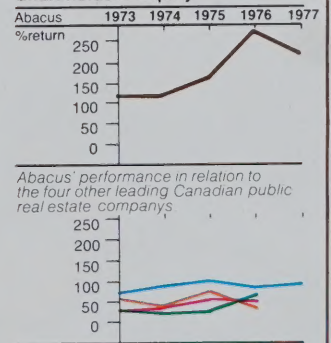
With every dollar of shareholders' equity in the Company at the outset of 1977, management produced \$1.15 of net earnings and \$2.25 of cash flow. While these figures are down slightly from those reported last year, they are still more than double the highest reported in our industry, and surpass the targets of \$1.00 net earnings return and \$1.92 cash flow return announced at our 1977 Annual Meeting.

As we continue to expand our operations, we will also expand our equity base through both the issue of new equity and the continued retention of most of our earnings. While we expect the gap between our return on total equity and that of other companies will narrow somewhat, we will always give the concept of productivity of common share capital a high position among our priorities.

Net Earnings Return on Beginning Shareholders' Equity



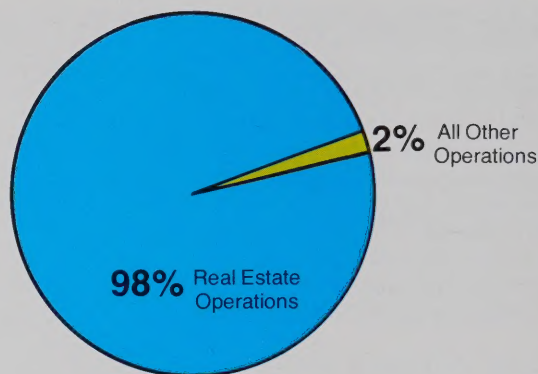
Cash Flow Return on Beginning Shareholders' Equity



Operations

The principal business of Abacus is the development of real property, which will continue to absorb the largest portion of our investment dollar. We plan to greatly expand this business, primarily through internal growth, to a number of geographic areas eastward in Canada and in the Western United States.

At this time our participation in oil and gas operations, precious metals refining and extraction, and financial companies together account for less than two percent of our investment dollars. It is our intention to significantly increase our investment in each of these industries, however the relative proportions of Abacus investment may not change greatly, due to the scale of planned real estate development expansion.



Abacus owes much of its success over the past eight years to its ability to offer clients and investors fully integrated investment services. Our developer/clients, for example, rely on the company's proven management and expertise in all aspects of real property development.

In fulfilling its obligation to these individuals, Abacus now prepares detailed development prospectuses which are presented and explained to potential clients by our marketing organization. The Company, in its capacity as agent for the developer/client, designs, develops and constructs the project on a cost-plus contract basis, and

ultimately turns the completed development over to our Property Management Division.

This system operates to the mutual advantage of both participants - Abacus provides experienced management and receives a fixed fee for its services, which, due to the cost-plus nature of the contract, is essentially profit; the developer/client provides cash equity, assumes all development risks and receives an investment in real estate which provides not only attractive tax deferrals but a steadily appreciating, highly liquid hedge against inflation.

Marketing Operations

The relationship between Abacus and its developer/clients is initiated by the Company's own salesforce. This highly professional team is well versed in the many financial and legal complexities involved in the sale of tax deferral real estate and RRSP mortgages. In 1977, sales of these products amounted to \$116 million.

The salesforce, operating under the name of Equivest Securities Ltd. in Alberta and Abacus Cities Marketing Division in B.C., is also licenced to sell new equity issued by Abacus. In the period from June, 1977 to date, the entire \$10 million in Second Preferred 'A' Shares has been sold, principally by the sales force.



Equivest, Calgary.



*Equivest,
Edmonton.*

1977 was a year of major expansion for our marketing operations. As well as establishing a new division in Victoria, B.C., a second office was opened in Calgary to service the steadily growing number of clients in that city.

The recent installation of a computerized sales accounting system enhances the marketing organization's ability to process information rapidly and accurately. This step is illustrative of the constant efforts of Abacus to improve and expand the services which it offers to its clients.

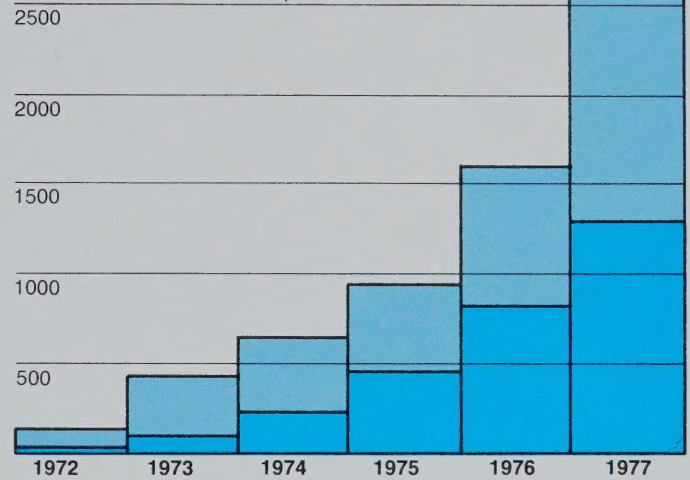
Property Development Operations



1977 was a year of growth and expansion for our five property development divisions, despite a weakness in some residential markets and cut backs announced by Government in Assisted Rental Programs and Capital Cost Allowance. That the two Alberta Divisions had over 2,000 residential units under construction at the end of 1977 is indicative of our strong market position in both Calgary and Edmonton. This is also in part a reflection of the stability of Alberta's economy relative to the rest of Canada.

The growing commercial trend evident in the latter part of 1976 has been aggressively pursued, with all five divisions currently committed to the development of a major commercial undertaking in 1978. These range from medical/professional buildings to miniwarehousing to neighbourhood and regional shopping centres, and in terms of dollar value, from \$1.4 to \$45 million.

Now firmly established in the major cities where their operations are centred, the development divisions are actively seeking expansion through real estate ventures in adjacent cities and towns. The abundance of promising opportunities in these areas ensures the continued growth of our existing property development divisions concurrent with planned geographic expansion.

Cumulative number of developer/clients



Developer/clients who have entered into one  or more than one  agreement with Abacus.

The success of operations over the past six years is evidenced not only by the rapidly increasing number of new developer/clients, but by the high proportion with whom Abacus has signed contracts in subsequent years.

Northern Alberta Division

- 1977 Gross Revenues - \$29,806,000.
- 17 projects under development at year end.
- 1,231 residential units under construction.
- Number of employees - 44.
- \$14 million Joint Venture signed with Hudson's Bay Company to develop St. Albert shopping centre.
- February, 1978 marked the official opening of the 155,000 square foot Millbourne Shopping Centre by Edmonton's Mayor C.J. (Cec) Purves. Provision exists for future expansion to 280,000 square feet.
- Over 1,000 residential unit starts are planned for the current year.
- 1978 will be a year of diversification, as the Northern Alberta Division pursues new forms of development for both clients and Abacus portfolio.



Woodridge Terrace, Edmonton



Millbourne Shopping Centre, Edmonton



THE ABACUS PORTFOLIO

As at December 31, 1977, Abacus owned a portfolio of revenue producing properties with an appraised value in excess of \$60 million. The Property Division manages 1,400 units of residential housing and over 800,000 square feet of commercial and retail facilities, which comprise a major portion of this portfolio.

Belmont Building, Victoria



Plaza By The Riverside, Winnipeg



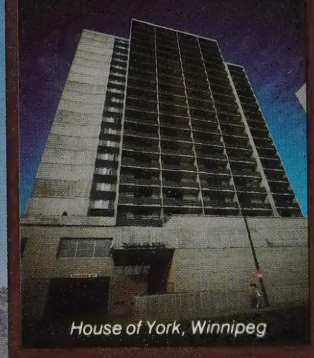
*88 South Park Drive,
Winnipeg*

*Mountainwoods,
Burnaby, B C*



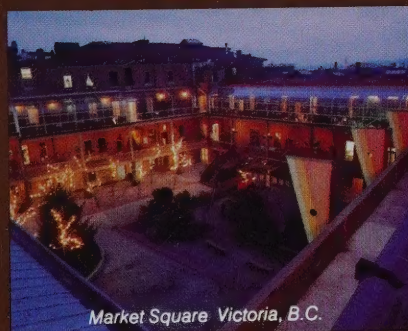
St. Albert Shopping Centre, St. Albert, Alberta

Mews, Kamloops, B.C.

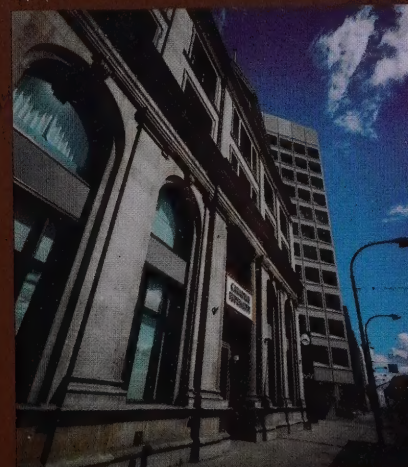


House of York, Winnipeg

A Calgary Suite Interior



Market Square Victoria, B.C.



The Canadian Indemnity Building, Winnipeg



Bestlands Building,
Winnipeg

Stacked Townhouse, Calgary



Southern Alberta Division

- 1977 Gross Revenues - \$32,614,000.
- 18 projects under development at year end.
- 941 residential units under construction.
- Number of employees - 48.
- Calgary Planning Commission approves a Concept Plan for the development of 129 acres in North Strathcona.
- Over 1,100 housing units in the planning stage.
- 1978 construction start confirmed for a professional/medical building and a commercial/retail complex, for a total of 120,000 square feet.
- Expanding urban markets throughout Southern Alberta are anticipated to provide exciting development potential for 1978.

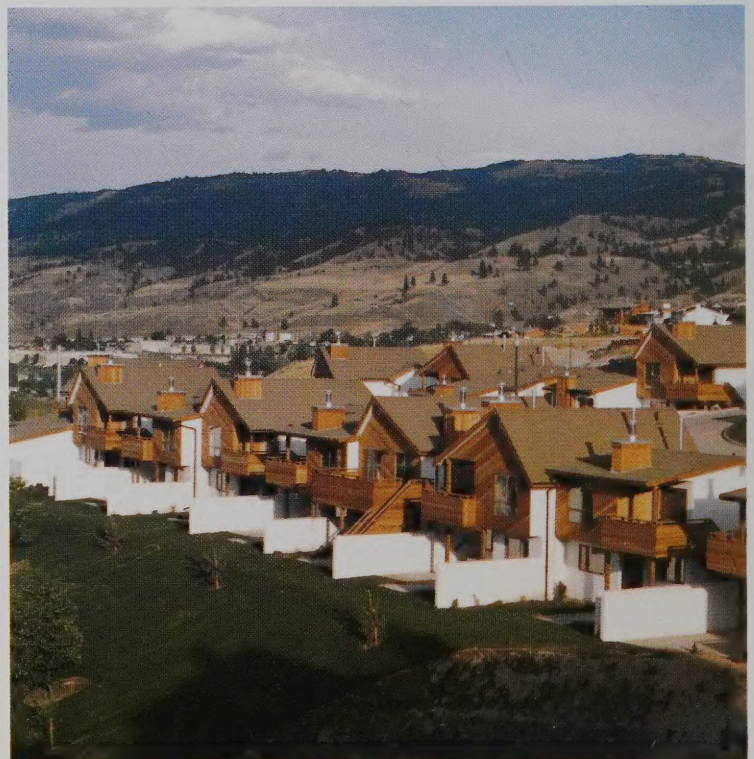
Palace Oaks, Calgary



Central B.C. Division

- 1977 Gross Revenues - \$7,845,000.
- 10 projects under development at year end.
- 432 residential units under construction.
- Number of employees - 17.
- 46,000 square foot medical/professional building slated for spring construction start in Kamloops.
- Highwood Park, winner of 1977 Ministry of Housing Proposal call in Williams Lake, B.C., is substantially complete and 100% pre-rented.
- \$9 million, 178,000 square foot shopping centre scheduled for late 1978 opening in Terrace, B.C.
- Steady growth is forecast for 1978, as the Central B.C. Division capitalizes on development opportunities in its region.

Sahali Terraces, Kamloops, B.C.



Sahali Mews Interior, Kamloops

Vancouver Island Division

- 1977 Gross Revenues - \$1,844,000.
- 3 projects under development at year end.
- Number of employees - 11.
- Foul Bay is the site of a \$3.2 million medical/dental facility, currently under development on behalf of clients.
- A unique terraced design enhances 990 Fort Street, a Victoria office building which will add \$1.4 million to the Abacus portfolio.
- The popularity of Market Square, Victoria's much-publicized historic restoration, is evidenced by strong tenant acceptance.
- Operations in 1978 will focus on continued penetration into an economically sound commercial market and active investigation of opportunities to expand geographically.



990 Fort Street, Victoria.



Market Square, Victoria, B.C.

Vancouver Division

- 1977 Gross Revenues - \$17,197,000.
- 6 projects under development at year end.
- 276 residential units under construction.
- Number of employees - 20.
- Spring construction start planned for a 55,000 square foot miniwarehouse project, to be retained for the Abacus portfolio.
- Joint application made with Canada Safeway Ltd. to develop an 83,000 square foot shopping centre in Surrey, B.C.
- New Westminster Council grants enthusiastic approval of preliminary plans for Brunette Square, a one million square foot commercial/industrial complex.
- Strong growth and diversification into new areas of development activity will highlight the Vancouver Division's 1978 operations.



Holly Park Lane,
Vancouver



Vancouver
Division

Property Management Operations

The Property Management function is an integral part of the services which Abacus provides to its many clients. Complete property management facilities operate in conjunction with each of the five property development divisions.

The vital work of leasing, operating and physically maintaining the developed property is undertaken by Abacus on behalf of client owners, thus relieving those owners from day to day management responsibilities.

In addition, a pooling arrangement by which the rental income and expenses of an entire project are combined substantially reduces the potential risk to an individual investor. These pools are sometimes in a negative cash flow position during the initial leasing period, and Abacus has typically arranged the required short term funds, same to be recovered from future cash flows. This practice reflects one of the ways in which clients benefit from the Abacus philosophy of risk reduction.

In addition to its activities on behalf of clients, the Property Division also manages the Abacus portfolio of revenue producing properties, which had an appraised value of over \$60 million at the end of 1977.



Calgary Property Division on a service call

OIL AND GAS OPERATIONS

Abacus Oil & Gas Ltd.

Abacus Oil & Gas was mobilized in December of 1977 to manage and promote the oil and gas interests of Abacus Cities. This wholly owned subsidiary has a substantial interest in the assets and the eventual cash flow to be generated by Petro Can Oil & Gas Fund. While this worth cannot be reflected in the traditional sense, as assets on a balance sheet, the undiscounted value of the Abacus interests is in the order of \$6 million for a nominal investment of \$150,000.

Abacus Cities has the right to exercise options to increase its present participation in Petro Can to approximately 50 percent of the outstanding units in the Partnership. These options, if fully exercised, would represent an investment of \$20 million, of which \$6 million would comprise cash.

High potential returns in conjunction with the attractive tax deferral and leveraged financing possibilities for investment in oil and gas are directing the future efforts of Abacus Oil & Gas to three areas:

1. the development, marketing and management of drilling funds on behalf of upper income investors and small businesses.
2. the securing of attractive oil and gas properties and the acquisition of operating companies for longer term portfolio investment by Abacus.
3. the creation of unique financing vehicles to facilitate the above.

In addition to its interests in the approximately 560,000 shallow gas acres in Southern Alberta, in late 1977 and early 1978, Abacus Oil & Gas acquired interests in seven and one half sections of the West Pembina area of Alberta. Interests in the individual parcels vary from 5% to 13%, through both farm outs and participation in land acquisitions.



Abacus Oil Rig

Abacus Industries Ltd.

Abacus Industries Ltd., established in September, 1977 to manage Abacus' mineral extraction interests, presently controls two B.C. companies. Terracon Products Ltd., is investigating productive uses of mine tailings with its research plant located near Princeton, B.C.

MS Industries Ltd., holds exclusive rights to a new process to refine precious metals and its refinery, in Surrey B.C., is in operation. Preliminary results are encouraging.



Petro Can Oil & Gas Fund

In late 1976, Petro Can Oil & Gas Corporation established a private drilling fund, which has generated an undiscounted value of \$40 million in gas reserves, utilizing and leveraging a \$2 million cash equity base. The fund, operating under the management of Petro Can Oil and Gas Corporation as General Partner, achieved an overall success ratio of 65% to the end of 1977, drilling 81 holes to yield 53 gas wells. This performance reflects the fine efforts and years of experience of Petro Can's management team. We have every confidence in their ability to sustain this level of achievement in the future.

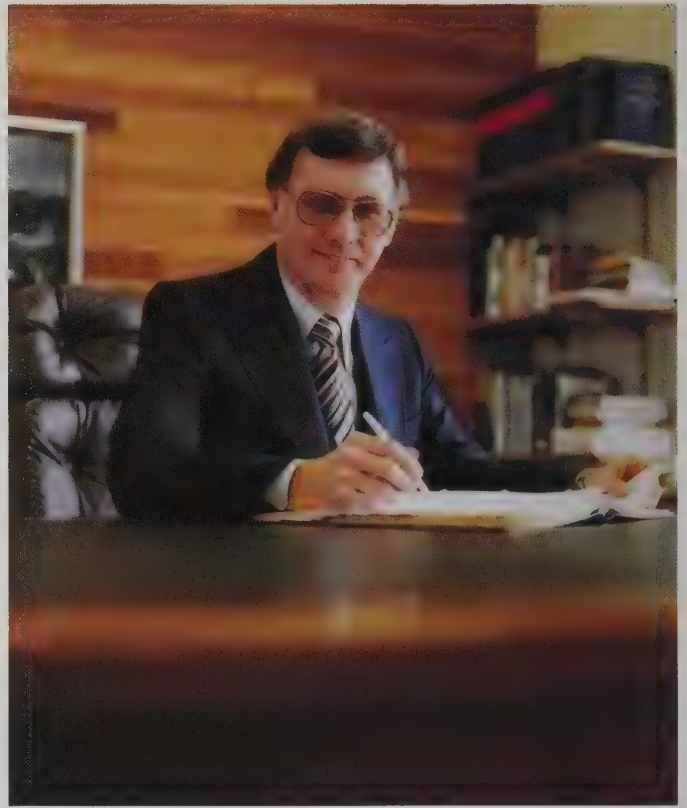
New Drilling Fund

Abacus Oil & Gas is currently planning a new drilling fund, which has the potential of being the largest of its kind ever to be offered to the Canadian public. We are confident that this new fund will be well received, especially by high income investors, due to its superior tax advantages, unique financial leveraging opportunities and the proven record of the existing fund.

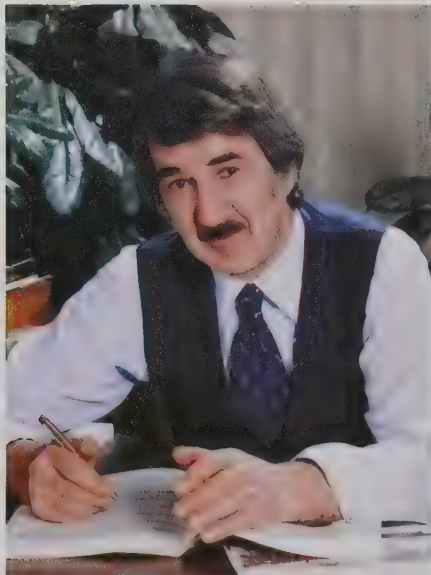
SENIOR MANAGEMENT



Kenneth D. Rogers, B. Comm., M.B.A., Ph.D.
Chairman of the Board



William H. Rogers, B.A.
President



Leo Theofan
Vice President and General Manager
Properties



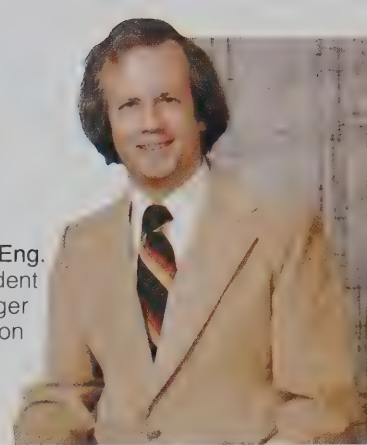
Donald N. Palser
President and General Manager
Equivest Securities Ltd.



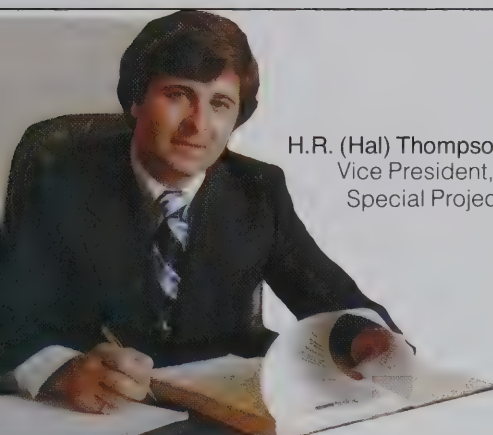
G. Ross Amos, B.A., M.B.A.
Vice President,
Finance and Administration



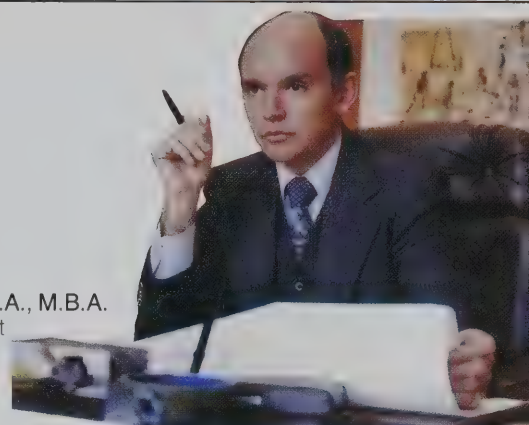
J.W. (Jack) Clarkson, B.A., M.B.A.
Vice President
and General Manager
Vancouver Division



Wendell H. Laidley, B.Eng., M.B.A., P.Eng.
Vice President
and General Manager
Northern Alberta Division



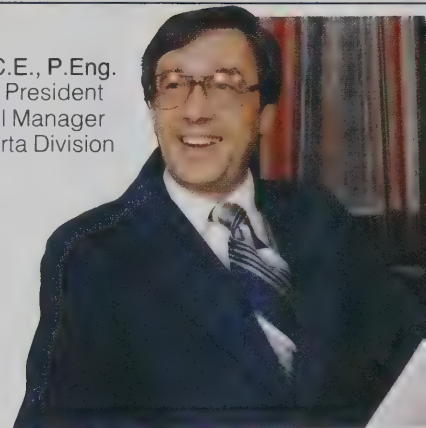
H.R. (Hal) Thompson, B.Sc., M.B.A., P.Eng.
Vice President,
Special Projects



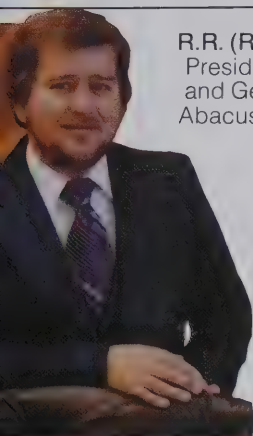
J.F. (Alan) Cornwall, B.S.A., M.B.A.
Vice President
and General Manager
Central B.C. Division



Gerald J. Hipple, B.A., M.B.A.
Vice President
and General Manager
Abacus Oil & Gas Ltd.



Ron R. Sawchuk, B.Sc., C.E., P.Eng.
Vice President
and General Manager
Southern Alberta Division



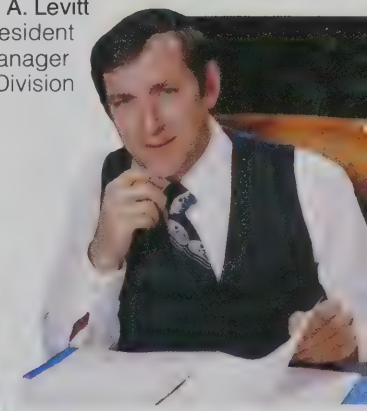
R.R. (Ray) Cottrell
President
and General Manager
Abacus Industries Ltd.



Glen A. Guest, C.A.
Comptroller



John J. Berrington, C.A.
Treasurer and Secretary



Pal A. Levitt
Vice President
and General Manager
Vancouver Island Division

Directors

Harvie Andre, B.Sc., M.S., Ph.D., P.Eng.
*Member of Parliament
Calgary, Alberta*

Richard K. Giuliani, B.Sc., C.L.U.
*Branch Manager,
The Great-West Life Assurance Co.
Burlington, Ontario*

Halet F. Hallatt, B.A., LL.B.
*Partner, Hallatt, Smith, Stewart & Gow
Victoria, B.C.*

Stanley H. Mader, B. Comm., LL.B.
*Partner, MacKimmie Matthews
Calgary, Alberta*

James S. Marr
*President, Marr Lumber Co. Ltd.
Calgary, Alberta*

Kenneth D. Rogers, B. Comm., M.B.A., Ph.D.
*Chairman of the Board, Abacus Cities Ltd.
Calgary, Alberta*

William H. Rogers, B.A.
*President, Abacus Cities Ltd.
Vancouver, B.C.*

John M. Sherman
*Financial Consultant
Vancouver, B.C.*

Senior Officers and Executives

Kenneth D. Rogers, B. Comm., M.B.A., Ph.D.
Chairman of the Board

William H. Rogers, B.A.
President

G. Ross Amos, B.A., M.B.A.
*Vice President
Finance and Administration*

John J. Berrington, C.A.
Treasurer and Secretary

J.W. (Jack) Clerkson, B.A., M.B.A.
*Vice President and General Manager
Vancouver Division*

J.F. (Alan) Cornwall, B.S.A., M.B.A.
*Vice President and General Manager
Central B.C. Division*

R.R. (Ray) Cottrell
*President and General Manager
Abacus Industries Ltd.*

Gerald J. Hipple, B.A., M.B.A.
*Vice President and General Manager
Abacus Oil & Gas Ltd.*

Wendell H. Laidley, B. Eng., M.B.A., P. Eng.
*Vice President and General Manager
Northern Alberta Division*

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*Vice President and General Manager
Vancouver Island Division*

Donald N. Palser
*President and General Manager
Equivest Securities, Ltd.*

Ron R. Sawchuk, B.Sc., C.E., P. Eng.
*Vice President and General Manager
Southern Alberta Division*

C. Leo Theofan
*Vice President and General Manager
Properties*

H.R. (Hal) Thompson, B.Sc., M.B.A., P. Eng.
Vice President, Special Projects

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Central B.C. Division
*510 Bank of Montreal Building
175 - 2nd Avenue
Kamloops, B.C. V2C 5W1
(604) 374-5193*

Vancouver Division
*Box 10127, Pacific Centre
701 West Georgia Street
Vancouver, B.C. V7Y 1C6
(604) 669-7511*

Vancouver Island Division
*Suite 202, Hartwig Court
1208 Wharf Street
Victoria, B.C. V8W 1T8
(604) 388-6461*

Corporate Properties Division
*Suite 322, Market Square
560 Johnson Street
Victoria, B.C. V8W 3C6
(604) 388-4383*

Principal Subsidiaries

EQUIVEST SECURITIES LTD.

*Head Office
Suite 205, Sherwood Plaza
5809 Macleod Trail S.W.
Calgary, Alberta T2H 0J9
(403) 253-0295*

ABACUS OIL & GAS LTD.

*Suite 2800, Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta T2P 0J4
(403) 261-3950*

ABACUS INDUSTRIES LTD.

*55 Granville Square
200 Granville Street
Vancouver, B.C. V6C 1S4
(604) 669-9822*

GILLAIN MANOR LTD.

*Suite 318, Market Square
560 Johnson Street
Victoria, B.C. V8W 3C6
(604) 388-7922*

Transfer Agent and Registrar

*The Royal Trust Company
Suite 700, 333 - 7th Avenue S.W.
Calgary, Alberta T2P 2Z1*

Auditors

*MacGillivray & Co.
828 - 12th Avenue S.W.
Calgary, Alberta T2R 0J3*



The Annual Meeting of Abacus Cities Ltd. will be held on Friday, April 14th, 1978 at 2:00 P.M. in the Britannia Room, Calgary Inn, Calgary, Alberta.



FINANCIAL STATEMENTS

8 YEARS OF GROWTH

BALANCE SHEET

EARNINGS

NOTES

Directors

Harvie Andre, B.Sc., M.
Member of Parliament
Calgary, Alberta

Richard K. Giuliani, E.
Branch Manager,
The Great-West Life A
Burlington, Ontario

Halet F. Hallatt, B.A.,
Partner, Hallatt, Smith,
Victoria, B.C.

Stanley H. Mader, B.
Partner, MacKimmie A
Calgary, Alberta

James S. Marr
President, Marr Lumb
Calgary, Alberta

Kenneth D. Rogers, I.
Chairman of the Board
Calgary, Alberta

William H. Rogers, B.
President, Abacus Cit
Vancouver, B.C.

John M. Sherman
Financial Consultant
Vancouver, B.C.

Senior Officers and

Kenneth D. Rogers,
Chairman of the Board

William H. Rogers, E.
President

G. Ross Amos, B.A.,
Vice President
Finance and Adminis

John J. Berrington, I.
Treasurer and Secret

J.W. (Jack) Clerkso
Vice President and G
Vancouver Division

J.F. (Alan) Cornwall
Vice President and G
Central B.C. Division

R.R. (Ray) Cottrell
President and Gener.
Abacus Industries Lt

Gerald J. Hipple, B.
Vice President and G
Abacus Oil & Gas Ltd

Wendell H. Laidley,
Vice President and G
Northern Alberta Divi

EIGHT YEARS OF GROWTH

FINANCIAL (\$000 omitted)

Value of Client Contracts	\$ 92,826	190%
Other Revenues	7,342	80%
Gross Revenues	\$100,168	160%
Direct Expenditures on behalf of Clients	\$ 70,287	181%
Interest and Overhead Expense	\$ 11,464	113%
Earnings before Income Taxes	\$ 18,402	153%
Income Taxes		
Current	\$ 8,937	163%
Deferred		

NET EARNINGS

CASH FLOW	\$ 18,524	153%
------------------	------------------	-------------

Earnings per Share (1)	\$.63	99%
Cash Flow per Share (1)	\$ 1.26	111%
Total Assets (2)	\$244,382	113%
Shareholders' Equity	\$ 27,534	112%
Common Shareholders' Equity per Share (1, 3)	\$ 1.17	64%
— including appraisal increment (1, 3)	\$ 2.10	—

- (1) Restated to reflect the 5:1 share split effective March 3, 1976 and the 5:1 share split effective July 15, 1976.
(2) Restated to reflect changes in balance sheet presentation.
(3) Does not include \$10,356,000 in Preference Shares issued in 1977, as detailed in Note 13 to the Consolidated Financial Statements.

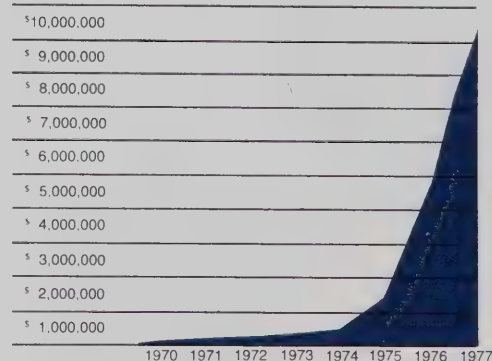
PERFORMANCE

NET EARNINGS RETURN ON EQUITY	115%	89%
CASH FLOW RETURN ON EQUITY	225%	171%
Net Earnings Return on Assets	10%	9%
Cash Flow Return on Assets	20%	18%
Net Earnings to Gross Revenues	10%	9%
Interest Expense to Net Earnings	7%	10%
Net Earnings % increase over previous year	98%	128%
Cash Flow per Employee	\$54,500	\$34,700
Debt/Equity Ratio (Shareholders' & Client Equity)	2.5:1	—

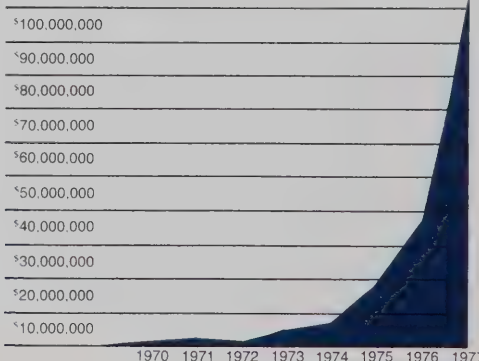
OTHER

Number of Common Shares Outstanding:		
— End of Year	14,742,700	—
— Weighted Average	14,742,700	—
Number of Common Shareholders	1,022	—
Common Share Dividend Rate	2.8¢	—
Number of Employees	340	—

NET EARNINGS



TOTAL REVENUES

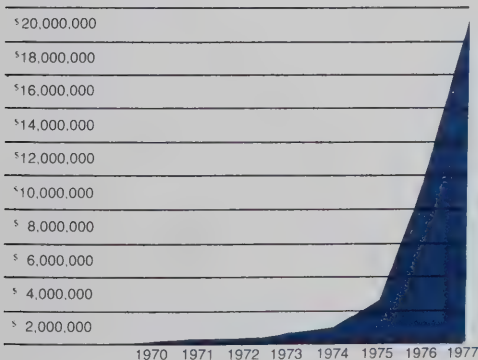


1976	1975	1974	1973	1972	1971	1970
\$35,457 2,050	\$16,490 725	\$ 7,075 618	\$ 5,356 516	\$ 450 390	\$ 1,133 384	— —
\$37,507	\$17,215	\$ 7,693	\$ 5,872	\$ 840	\$ 1,517	\$ 540
\$24,136	\$12,250	\$ 5,472	\$ 4,465	\$ 401	\$ 1,030	—
\$ 3,981	\$ 2,093	\$ 1,171	\$ 715	\$ 260	\$ 310	—
\$ 9,197	\$ 2,837	\$ 1,050	\$ 691	\$ 179	\$ 140	—
—	—	—	—	—	—	—
\$ 4,405	\$ 1,317	\$ 461	\$ 315	\$ 71	\$ 58	—
\$ 4,792	\$ 1,520	\$ 589	\$ 376	\$ 107	\$ 82	\$ 75
\$ 9,434	\$ 2,876	\$ 1,041	\$ 687	\$ 177	\$ 195	\$ 67
\$.35	\$.15	\$.08	\$.06	\$.02	\$.01	\$.01
\$.69	\$.28	\$.14	\$.10	\$.03	\$.03	\$.02
\$91,685	\$30,072	\$18,297	\$10,253	\$ 5,517	\$ 3,227	\$ 3,352
\$ 8,232	\$ 3,648	\$ 1,866	\$ 964	\$ 639	\$ 537	\$ 425
\$.56	\$.32	\$.21	\$.15	\$.10	\$.08	\$.06
—	—	—	—	—	—	—

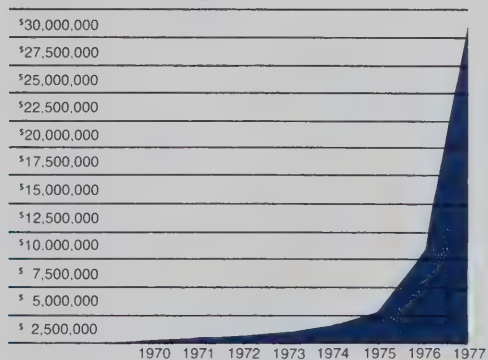
1976	1975	1974	1973	1972	1971	1970
131%	81%	61%	59%	20%	19%	—
259%	154%	107%	109%	33%	46%	—
16%	8%	6%	7%	3%	2%	—
31%	16%	10%	12%	5%	6%	—
13%	9%	8%	6%	13%	5%	1%
6%	8%	17%	12%	—	—	—
215%	158%	57%	112%	30%	9%	—
\$52,100	\$33,400	\$16,500	\$16,800	\$5,900	\$19,500	\$4,200
2.2:1	0.7:1	—	—	—	—	—

14,742,700	459,474	351,046	264,182	259,522	259,522	250,000
13,603,236	410,483	288,351	264,182	259,522	250,793	250,000
783	293	297	61	54	50	50
1.6¢	1.6¢	—	—	—	—	—
181	86	63	41	20	10	16

CASH FLOW



SHAREHOLDERS' EQUITY



ABACUS CITIES LTD.

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1977

(\$000)

Directors

Harvie Andre
Member of Parliament
Calgary, Alberta

Richard K. Gibson
Branch Manager
The Great-West
Burlington, Ontario

Halet F. Hall
Partner, Hall
Victoria, B.C.

Stanley H. Mac
Partner, Mac
Calgary, Alberta

James S. Marshall
President, Marshall
Calgary, Alberta

Kenneth D. Rogers
Chairman of the Board
Calgary, Alberta

William H. Rogers
President, Abacus
Vancouver, B.C.

John M. Sherr
Financial Controller
Vancouver, B.C.

Senior Officers

Kenneth D. Rogers
Chairman of the Board

William H. Rogers
President

G. Ross Amo
Vice President
Finance and Administration

John J. Berrin
Treasurer and
Vice President

J.W. (Jack) Campbell
Vice President
Vancouver Division

J.F. (Alan) Campbell
Vice President
Central B.C. Division

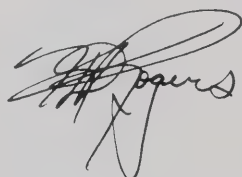
R.R. (Ray) Campbell
President and
Abacus Industries

Gerald J. Hippen
Vice President
Abacus Oil & Gas

Wendell H. L.
Vice President
Northern Alberta

	NOTE	1977	1976
ASSETS			
Cash		\$ 9,070	\$ 3,584
Cash in trust		51	729
Accounts and notes receivable	3	7,526	3,914
Deposits, prepaid expenses and other assets	4	1,174	872
Client projects under development	1(a) 2	136,242	46,293
Revenue producing properties under development — at cost		24,443	13,737
Land held for future development — at cost		5,283	8,082
Revenue producing properties	5	53,392	14,217
Other investments — at cost	6	6,587	84
Financing and share issue costs		614	173
Deferred client contracts	2	—	—
		<u>\$244,382</u>	<u>\$ 91,685</u>

Approved on behalf of the Board



Kenneth D. Rogers

Directors



William H. Rogers

BALANCE SHEET

EARNINGS

NOTES

	NOTE	1977	1976
LIABILITIES			
Bank loans	7	\$ 2,604	\$ 1,676
Trust liability		51	729
Accounts payable and accrued liabilities		15,275	4,174
Mortgages and agreements payable	8		
Client projects under development	1(a)	72,063	17,495
Revenue producing properties under development		17,249	8,525
Land held for future development		4,066	8,039
Revenue producing properties		43,191	12,126
Debentures payable	9	4,066	3,971
Client equity in projects under development	1(a)	41,278	20,191
Deferred revenue	10	1,057	—
Deferred income taxes	11	16,076	6,670
		<u>216,976</u>	<u>83,596</u>
Interest of limited partners	12	(128)	(143)
SHAREHOLDERS' EQUITY			
Capital stock	13	11,481	1,125
Capital redemption reserve fund		73	73
Retained earnings		15,980	7,034
		<u>27,534</u>	<u>8,232</u>
		<u>\$244,382</u>	<u>\$ 91,685</u>

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1977

(\$000)

Direct

Harvie
Mem
CalgRichar
Bran
The C
BurlinHalet F
Partr
VictoStanley
Partr
CalgJames
Presi
CalgKenne
Chai
CalgWilliam
Presi
VancJohn M
Finar
Vanc

Senior

Kenne
ChaiWilliam
PresG. Ros
Vice
FinarJohn J
TreaJ.W. C
Vice
VancJ.F. (A
Vice
CeniR.R. (F
Pres
AbaiGerald
Vice
AbaiWendi
Vice
Nort

	NOTE	1977	1976
Value of client contracts	1(a)	\$ 92,826	\$ 35,457
Direct expenditures on behalf of clients	1(a)	70,287	24,136
REVENUE			
Net development management fees		22,539	11,321
Rental income		3,236	1,030
Rental management income		298	182
Consulting, interest and other income		3,808	838
		<u>29,881</u>	<u>13,371</u>
EXPENSES			
Rental operations — interest		2,435	662
— operating expenses		1,048	371
General and administrative	1(c)	7,100	2,637
Interest		676	265
Depreciation and amortization	1(e)	205	46
		<u>11,464</u>	<u>3,981</u>
EARNINGS FROM OPERATIONS		<u>18,417</u>	<u>9,390</u>
Provision for loss in an associated company		—	176
		<u>18,417</u>	<u>9,214</u>
Interest of limited partners		15	17
EARNINGS BEFORE INCOME TAXES		<u>18,402</u>	<u>9,197</u>
Income Taxes			
Current		—	—
Deferred	11	8,937	4,405
NET EARNINGS FOR THE YEAR		<u>\$ 9,465</u>	<u>\$ 4,792</u>
EARNINGS PER SHARE			
Net earnings		\$ 0.63	\$ 0.35
Fully diluted net earnings	17	0.60	0.32

ABACUS CITIES LTD.

**CONSOLIDATED STATEMENT
OF RETAINED EARNINGS**

FOR THE YEAR ENDED DECEMBER 31, 1977

(\$000)

	1977	1976
Balance at beginning of the year	\$ 7,034	\$ 2,449
Net earnings for the year	9,465	4,792
	16,499	7,241
Preferred share dividends	(106)	(5)
Common share dividends	(413)	(202)
Balance at end of the year	<u>\$ 15,980</u>	<u>\$ 7,034</u>

ABACUS CITIES LTD.

**CONSOLIDATED STATEMENT OF
CASH FLOW FROM OPERATIONS**

FOR THE YEAR ENDED DECEMBER 31, 1977

(\$000)

	1977	1976
Net earnings for the year	\$ 9,465	\$ 4,792
Non-cash items		
Deferred income taxes	8,937	4,405
Depreciation and amortization	205	46
Loss from investments in associated companies		176
Other	23	20
	18,630	9,439
Less preferred share dividends	106	5
NET CASH FLOW FROM OPERATIONS	<u>\$ 18,524</u>	<u>\$ 9,434</u>
CASH FLOW PER SHARE	<u>\$ 1.26</u>	<u>\$ 0.69</u>

ABACUS CITIES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1977

(\$000)

	NOTE	1977	1976
SOURCE OF CASH			
Net cash flow from operations		\$ 18,524	\$ 9,434
Proceeds from issue of first preferred shares		2,561	—
Proceeds from issue of second preferred shares		7,795	—
Financing proceeds			
Mortgages on client projects under development		47,948	13,519
Mortgages on revenue producing properties under development		15,490	8,525
Mortgages on land held for future development		5,511	7,872
Mortgages on revenue producing properties		1,049	9,929
Debentures		300	4,000
Bank loans		928	1,676
Notes and finance contracts		302	457
Client equity payments		20,415	13,309
Increase in accounts payable		6,502	2,178
		<u>\$127,325</u>	<u>\$ 70,899</u>
USE OF CASH			
Common share dividends		\$ 413	\$ 202
Principal repayments		4,626	2,100
Client projects under development		78,792	31,141
Revenue producing properties under development		21,419	13,737
Land held for future development		7,395	8,082
Revenue producing properties		1,244	9,615
Acquisition of shares in Bestlands companies	13(c)	2,561	—
Increase in investments		4,054	—
Increase in accounts receivable		429	3,072
Decrease in interest of limited partners		—	299
Net change in other assets and liabilities		906	614
		<u>121,839</u>	<u>68,862</u>
NET INCREASE IN CASH		<u>5,486</u>	<u>2,037</u>
		<u>\$127,325</u>	<u>\$ 70,899</u>

ABACUS CITIES LTD.
NOTES TO
CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1977

NOTE 1 — ACCOUNTING POLICIES

(a) General

The majority of Company revenues are service fees earned as agent for other developers pursuant to contracts entered into prior to development. During the course of development of client projects, titles are held by Abacus. Thus, until the projects are completed, Company accounts reflect costs incurred and development management fees charged to date as well as related debt and client equity. Upon completion, titles and related debts are assumed by the clients for whom the projects are developed.

(b) Principles of Consolidation

The consolidated financial statements include:

- (i) The assets, liabilities and results of operations of all companies and partnerships in which the Company holds an interest of more than 50%.
- (ii) The proportionate share of the assets, liabilities and results of the operations of joint ventures in which the Company participates.

(c) Capitalization of Costs

The Company follows the policy of recording direct carrying costs such as mortgage interest, realty taxes, and other related costs as part of the cost of all categories of projects under development. The Company also follows the policy of recording as part of the cost of all categories of projects under development, that portion of the administrative overhead and interest on general borrowings considered applicable. The amounts so capitalized are as follows:

	1977	1976
Administrative overhead	\$1,049,364	\$ 790,153
Interest on general borrowings	103,783	79,102
	<u>\$1,153,147</u>	<u>\$ 869,255</u>

(d) Revenue Recognition

It is the general policy of the Company to recognize revenue from development management fees on a percentage of completion basis as set out in the development services contract, however, certain provisions in the contract provide that the Company may use its discretion to defer recognition of these fees. Such fees have been computed for the current year and recognized on a percentage of completion basis but in 1976, \$1,662,000 in fees

were deferred by the Company subject to the discretionary provisions and have been taken into income in the current year.

(e) Depreciation Policy

Depreciation on revenue producing properties is based on the sinking fund method, under which fixed annual amounts, together with interest compounded at the rate of 6% per annum, are charged to earnings over the estimated lives of the properties (40-50 years). Other assets are depreciated using either the declining balance or straight-line method depending on the type of asset and its estimated useful life.

NOTE 2 — DEFERRED CLIENT CONTRACTS

Under the percentage of completion method of accounting, revenues from client contracts are recorded as work is performed. Land contracts are usually on a fixed price basis with inflation escalation clauses, while building contracts are on a cost-plus-fee basis. The uncompleted, and therefore unrecorded, portions of existing contracts for Client Projects Under Development are estimated at:

Costs required to complete projects	\$60,442,927
Deferred development management fees	12,688,915
Total deferred development contracts	<u>\$73,131,842</u>

In addition to the above, certain costs are carried in Client Projects Under Development relating to properties which were not contracted to client developers at the end of the year. The total cost of units within such projects at December 31, 1977 was \$2,355,017 (December 31, 1976 — \$1,308,996).

NOTE 3 — ACCOUNTS AND NOTES RECEIVABLE

	1977	1976
Accounts and mortgage draws receivable on completed projects ..	\$ 2,118,811	\$ 1,987,467
Notes and mortgages receivable (a)	2,693,875	795,466
Current advances to partnerships and joint ventures	497,302	190,532
Employee receivables ..	1,188,168	263,844
Other	1,027,418	676,486
	<u>\$ 7,525,574</u>	<u>\$ 3,913,795</u>

- (a) Notes receivable include notes due from officers of the Company of \$201,441, at interest rates ranging from 8½% to 13%, due on various dates between June 30, 1978 and September 30, 1982.

NOTE 4 — DEPOSITS, PREPAID EXPENSES AND OTHER ASSETS

	1977	1976
Refundable deposits ..	\$ 76,062	\$ 104,587
Furniture and equipment	250,356	95,142
Mortgage commitment deposits	268,100	60,887
Land purchase deposits	108,552	591,520
Other	470,756	19,487
	<u>\$ 1,173,826</u>	<u>\$ 871,623</u>

NOTE 5 — REVENUE PRODUCING PROPERTIES — AT COST

	1977	1976
Land, buildings and chattels	\$53,546,231	\$14,244,330
Accumulated depreciation	(153,836)	(27,168)
	<u>\$53,392,395</u>	<u>\$14,217,162</u>

NOTE 6 — OTHER INVESTMENTS — AT COST

	1977	1976
Investments in securities of financial companies	\$ 2,362,135	\$ 74,300
Investments in resource industries (a)	4,224,891	—
Other investments	24	10,016
	<u>\$ 6,587,050</u>	<u>\$ 84,316</u>

- (a) During the year, the Company purchased 334 units of Petro Can Oil & Gas Fund for an amount of \$3,340,000. The Company has the option to acquire an additional 1,666 units for an amount of \$16,660,000 during 1978. This option is exercisable on a monthly basis.

NOTE 7 — BANK LOANS

Bank loans are authorized to a maximum of \$4,000,000 with a Canadian Chartered Bank. Advances under this line of credit (nil at December 31, 1977) are secured by a general assignment of Accounts Receivable together with a floating demand debenture on all assets of the Company. These rank in priority to the Debentures referred to in Note 9. Early in 1978, this line of credit was increased to \$7,000,000. Loans outstanding with other Canadian Chartered Banks amounted to \$2,604,000 at December 31, 1977.

NOTE 8 — MORTGAGES AND AGREEMENTS PAYABLE

	Debentures	Client Projects Under Development
Principal maturities are as follows:		
1978	\$ 500,400	\$66,188,287
1979	200,400	416,822
1980	200,400	1,451,574
1981	200,400	3,594,776
1982	200,400	12,000
Subsequent	2,764,000	399,398
	<u>\$ 4,066,000</u>	<u>\$72,062,857</u>

	Revenue Producing Properties Under Development	Land Held For Future Development	Revenue Producing Properties
1978	\$ 8,070,371	\$ 1,402,156	\$ 6,961,111
1979	133,041	395,592	2,544,104
1980	148,612	1,156,378	556,186
1981	78,211	729,196	3,336,358
1982	3,177,936	198,093	7,307,995
Subsequent ..	5,640,954	184,462	22,485,501
	<u>\$17,249,125</u>	<u>\$ 4,065,877</u>	<u>\$43,191,255</u>

Mortgages on Revenue Producing Properties bear interest at rates varying from 7% to 15% (average 10.80%).

It is the policy of management to renew or replace mortgages as they mature, at the then prevailing terms.

NOTE 9 — DEBENTURES PAYABLE

	1977
Debenture due to 1981 — prime plus 4% This debenture, except for certain specific charges on real estate, ranks subordinate to the debenture referred to in Note 7.	\$3,766,000
Debenture due on demand — 13%	300,000
This debenture is secured by securities of financial companies and was repaid in full in early 1978.	
	<u>\$4,066,000</u>

NOTE 10 — DEFERRED REVENUE

On certain projects, client developers prepay five years of lease costs including fees to Abacus. The current portion of these fees has been recognized as income in 1977 with the balance to be recognized as services are performed.

NOTE 11 — DEFERRED INCOME TAXES

Income taxes otherwise currently payable (1977 — \$8,936,195; 1976 — \$4,405,571) have been deferred to future periods by reason of:

- (a) Capital cost allowances claimed in excess of depreciation recorded in the accounts.
- (b) Development expenses relating to revenue producing property investments deducted for income tax purposes while capitalized for accounting purposes.
- (c) Deferring the recognition of contract profits for income tax purposes until final completion of the contracts or until the balance of the sales price is received.

NOTE 12 — INTEREST OF LIMITED PARTNERS

In previous years, new mortgages were placed on properties involving the Limited Partners. As the market value of these properties was well in excess of book value, mortgage funds obtained enabled the Company to distribute cash payments to the Limited Partners. Accordingly, the interest of the Limited Partners is negative due to these cash payments in excess of equity balances.

NOTE 13 — CAPITAL STOCK

- (a) Authorized:
 - 50,000,000 Common shares without nominal or par value;
 - 1,000,000 First preferred shares with a par value of \$10 each;
 - 100,000 Second preferred shares with a par value of \$100 each.

- (b) Issued and Fully Paid:

	1977	1976
14,742,700 Common shares		
(1976 — 14,742,700 shares)	\$ 1,124,926	\$ 1,124,926
120,000 First preferred shares, Series A	1,200,000	—
136,100 First preferred shares, Series B	1,361,000	—
77,950 Second preferred shares	7,795,000	—
	<u>\$11,480,926</u>	<u>\$ 1,124,926</u>

- (c) Effective June 7, 1977, Abacus acquired all of the issued and outstanding shares of Bestlands Investments Ltd., Bestlands Development Ltd. and Bestlands Westend Development Ltd. in consideration of the issuance to the vendors of 120,000 First Preferred Shares, Series A and 136,100 First Preferred Shares, Series B of the capital stock of Abacus.

- (d) The First Preferred Shares, Series A are redeemable, non-voting and entitled to fixed, cumulative, preferential, cash dividends in the amount of 5% of the par value per annum. The Series A shares are not convertible and are redeemable at the option of Abacus; however, Abacus is required to call 80,000 First Preferred Shares, Series A, for redemption by April 30, 1978 and to call the balance for redemption by January 31, 1979.
- (e) The First Preferred Shares, Series B are redeemable, non-voting and entitled to fixed, cumulative, preferential, cash dividends in the amount of 5% of the par value for 1977 and 1978, 6% for 1979, 7% for 1980, 8% for 1981 and thereafter at a rate to be determined by review in 1982, 1987 and 1992, not to exceed 15% per annum. The Series B shares are not convertible and are redeemable at the option of Abacus; however, Abacus is required to call all First Preferred Shares, Series B for redemption by May 31, 1997.
- (f) The Second Preferred Shares, Series A, are redeemable, non-voting and entitled to fixed, cumulative, cash dividends at the rate of 10% of the par value per annum. The Series A shares are not convertible and are redeemable at the option of Abacus at a price equal to the par value plus a premium of 4% if redeemed on or before August 15, 1977. The premium thereafter decreases by ½% each two years up to and including August 15, 1991 after which date, redemption will be at par value. The Second Preferred share issue was fully subscribed subsequent to December 31, 1977. Issued with each Second Preferred Share, Series A, are 10 share purchase warrants. These warrants, valid until 1983, entitle the holder to purchase common shares at a price between \$4.00 and the average market price determined during prescribed periods but in no event to be less than \$4.00 per share. As the exercise price exceeds \$4.00, the number of common shares which may be purchased decreases as such price increases. Early in 1978, 742,655 warrants were exercised in purchasing 724,541 common shares.

NOTE 14 — CONTINGENT LIABILITIES

- (a) The Company is contingently liable for a bank loan in the amount of \$1,000,000 in connection with the acquisition of the Bestlands companies.
- (b) The Company is contingently liable with respect to letters of guarantee issued by a Canadian Chartered Bank totalling \$437,940, the majority of which are issued to secure mortgage commitments.
- (c) The Company is contingently liable in the amount of \$5,016, 269 for the debts of its co-owners in the partnerships in which it is the general partner and in the joint ventures in which it participates. Against such contingent liabilities, the Company would have a claim against the partnership or joint venture assets of its co-owners.

- (d) In the normal course of the Company's business, it executes mortgages on behalf of the developer clients. On some mortgages, notwithstanding assumption thereof by such clients, the Company remains contingently liable. The mortgages are secured by a charge against the properties with a value presently in excess of the developer client mortgage obligation.
- (e) Abacus Cities Ltd. is liable to Canadian-Montana Gas Company Limited for obligations under certain farm-out agreements entered into between Canadian-Montana as farmor and Abacus Oil & Gas Ltd. as farmee and agent and trustee for Abacus Cities Ltd. Abacus' interests in those agreements have been assigned to Petro Can Oil & Gas Fund, which has undertaken to Abacus, the performance of the obligation therein.

NOTE 15 — LEASE COMMITMENTS

The Company has entered into certain land lease commitments in connection with its revenue producing properties for terms varying from 30 to 99 years with a minimum annual rental of \$857,730. The Company has options to purchase these properties at dates varying between the third and tenth years of the lease.

NOTE 16 — STATUTORY AND OTHER INFORMATION

- (a) The aggregate direct remuneration paid or payable to Directors and Senior Officers of the Company for the year ended December 31, 1977 was \$622,294 (1976 — \$434,892).
- (b) The Company, its operations and employees may be subject to the provisions of the Anti-Inflation Act. The Company has not yet ascertained whether the Act has a material effect on its income for 1977.

NOTE 17 — FULLY DILUTED EARNINGS PER SHARE

If, at January 1, 1977 it were assumed that all warrants associated with the Second Preferred Shares had been exercised, 1977 earnings per share would have been \$0.60 per share.

AUDITORS' REPORT

To the Shareholders,
Abacus Cities Ltd.

We have examined the consolidated balance sheet of Abacus Cities Ltd. as at December 31, 1977 and the consolidated statements of earnings, retained earnings, cash flow from operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements when read in conjunction with the notes thereto, present fairly the consolidated financial position of the companies and partnerships as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MacGillivray & Co.
CHARTERED ACCOUNTANTS

March 7, 1978
Calgary, Alberta



Abacus Cities Ltd.
Consolidated Statement of Earnings (unaudited)

	Six Months Ended June 30 1977	Six Months Ended June 30 1976	Year Ended December 31 1976
REVENUE			
Gross revenues from client contracts	\$24,906,152	\$ 6,181,835	\$15,519,951
Buildings	6,578,024	4,425,775	19,936,800
Land	31,484,176	10,607,610	35,456,751
Gross cost of contracts	25,135,732	6,355,286	24,135,522
Net development management fees	6,348,444	4,252,324	11,321,229
Rental income	935,505	433,691	1,030,046
Rental management income	125,718	52,569	181,630
Consulting, interest and other income	1,120,065	155,832	638,136
Income from investments in associated companies	—	5,628	—
	8,529,732	4,900,044	13,371,041

EXPENSES			
Rental operations - interest	730,368	233,324	661,354
- operating expenses	432,041	177,216	370,800
General and administrative	2,977,810	1,251,745	2,637,177
Interest	211,686	60,595	265,218
Depreciation and amortization	52,944	20,204	46,120
	4,404,859	1,743,084	3,980,669
EARNINGS FROM OPERATIONS	4,124,873	3,156,960	9,390,372
Provision for loss in an associated company	—	—	176,180
Interest of limited partners	4,124,873	3,156,960	9,214,192
	7,650	11,640	16,816
EARNINGS BEFORE INCOME TAXES	4,117,223	3,145,320	9,197,376
Income Taxes	—	—	—
Current	1,935,095	1,438,600	4,405,571
Deferred	—	—	—
NET EARNINGS FOR THE PERIOD	\$ 2,182,128	\$ 1,706,720	\$ 4,791,805

EARNINGS PER SHARE			
Cash flow	\$ 0.28	\$ 0.25	\$ 0.69
Net earnings	0.15	0.13	0.35
Fully diluted net earnings	0.15	0.11	0.32

NOTE: The June 30, 1976 earnings and cash flow per share are restated to reflect the 5:1 share split effective July 15, 1976.



Abacus Cities Ltd.
Consolidated Statement of Changes In Financial Position (unaudited)

	Six Months Ended June 30 1977	Six Months Ended June 30 1976	Year Ended December 31 1976
SOURCE OF CASH			
Net cash flow from operations	\$ 4,170,167	\$ 3,161,825	\$ 9,433,655
Financing proceeds	—	—	—
Mortgages on client projects under development	20,989,663	2,876,875	13,519,237
Mortgages on revenue producing properties under development	6,439,575	2,505,453	8,525,124
Mortgages on land held for future development	1,069,400	1,350,244	7,871,620
Mortgages on revenue producing properties	714,929	4,344,735	9,928,424
Debtenture	—	—	4,000,000
Bank loans	1,452,745	1,864,500	1,675,755
Notes and finance contracts	—	—	456,932
Client equity payments	4,800,984	2,636,579	13,309,320
Increase in accounts payable	1,921,423	1,712,092	2,178,077
	\$41,558,886	\$20,452,303	\$70,898,144

USE OF CASH			
Common share dividends	\$ 88,570	\$ 202,131	\$ 202,131
Redemption of preferred shares	—	517	517
Principal repayments	4,185,653	2,049,243	2,099,594
Client projects under development	30,348,879	9,750,542	31,141,505
Revenue producing properties under development	7,415,936	3,653,706	13,736,500
Land held for future development	1,321,322	2,231,543	8,082,229
Revenue producing properties	217,655	3,056,485	9,615,024
Increase in accounts receivable	271,327	857,354	3,072,189
Decrease in interest of limited partners	—	—	298,543
Net change in other assets and liabilities	239,114	2,780	613,192
	44,088,426	21,804,301	68,861,424

NET INCREASE (DECREASE) IN CASH	(2,529,540)	(1,351,998)	2,036,720
	\$41,558,886	\$20,452,303	\$70,898,144



Abacus Cities Ltd.
Consolidated Statement of Cash Flow From Operations (unaudited)

	Six Months Ended June 30 1977	Six Months Ended June 30 1976	Year Ended December 31 1976
Net earnings for the period	\$ 2,182,128	\$ 1,706,720	\$ 4,791,805
Non-cash items	—	—	—
Deferred income taxes	1,935,095	1,438,600	4,405,571
Depreciation and amortization	52,944	20,204	46,120
Loss (income) from investments in associated companies	—	(5,628)	176,180
Other	—	6,597	18,647
Less preferred share dividends	4,170,167	3,168,493	9,438,323
	—	4,668	4,668
NET CASH FLOW FROM OPERATIONS	\$ 4,170,167	\$ 3,161,825	\$ 9,433,655

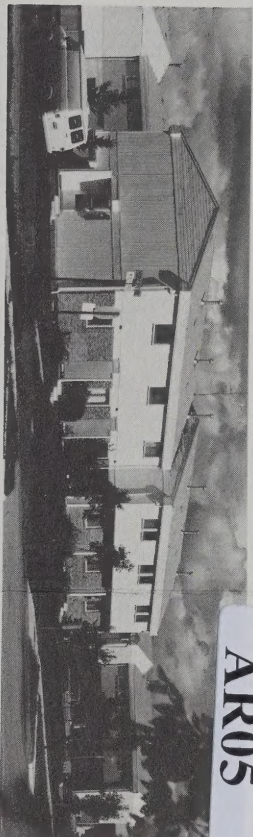


The House of York, a 23 storey luxury high rise apartment building in downtown Winnipeg acquired by your Company in June.

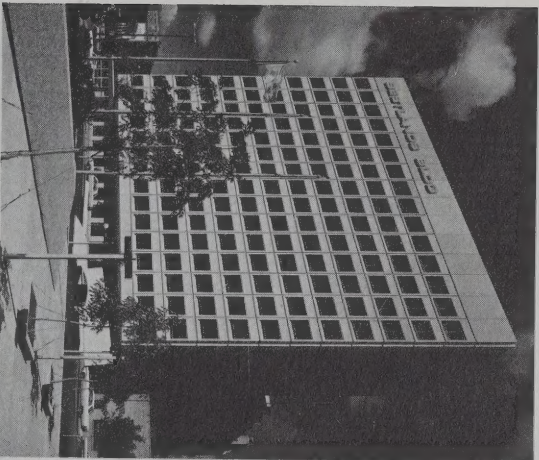
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ABACUS

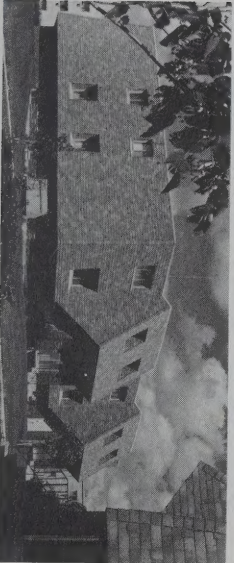
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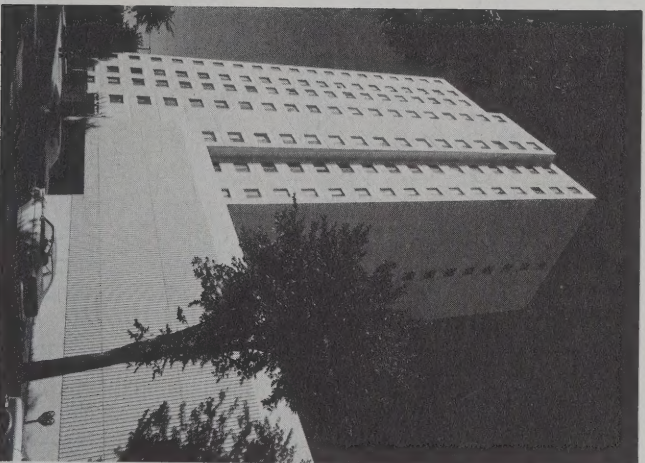
Hyland Park in Selkirk, Manitoba, provides a further 44 units of rental townhousing at 305 and 325 Mercy Street.



The 12 storey Bastlands Building, a two year old structure, includes 97,000 square feet of prime office space, fully leased.



Distinctive architecture highlights the 42 unit townhouse project at 88 South Park Drive.



Located just west of the Fort Garry Hotel, at 70 Garry St., "Plaza by the Riverside" includes 199 rental units.

ABACUS

ABACUS

1977

Second Quarter Report

For the six months ended
June 30, 1977

2

Abacus Cities Ltd. is an Alberta and B.C. based company providing investment vehicles and related services for individual investors through operations in land and property development. Corporate offices are located in Calgary, with Divisions located in Calgary, Edmonton, Central B.C., Vancouver and Victoria.



ABACUS



ABACUS

SECOND QUARTER REPORT TO OUR SHAREHOLDERS:

Positive results highlight our second quarter with the highest earnings, cash flow and revenues that Abacus has ever attained.

Net earnings for the six months ended June 30, 1977 were \$2,182,128, an increase of 28% from the corresponding period in 1976.

Cash flow from operations reached \$4,170,167, an increase of 32% over last year. The second quarter results are extremely gratifying in that we have exceeded targetted projections in a number of sectors.

Assets Now Over \$150 Million

The assets of Abacus are now over \$150 million, including the appraisal increment of the properties.

As at June 30, 1977, the Balance Sheet indicated assets of \$146,417,043, 3.5 times higher than the \$42,094,262 of assets only one year ago. Almost 40% of the assets lies in additions to your company's portfolio as we continue our long range objective of substantially building our portfolio and asset base with quality commercial and residential developments. However, \$77 million, or over half of the company's rapidly growing assets are invested in projects under development for our clients, indicating the growing acceptance of the services your company provides for others.

Acquisition:

A major occurrence during our second quarter was the largest single acquisition your company has achieved in its history. On June 10, 1977, we finalized and announced that we had acquired, approximately \$20 million of office and apartment buildings in Winnipeg, following extensive negotiation with the Bestlands Group of Companies.

The assets of this transaction include approximately 130,000 square feet of fully leased prime commercial space. The principal building is the two-year-old Bestlands Building, with 97,000 square feet on 12 storeys and located on Pioneer Avenue near Portage and Main Streets in downtown Winnipeg.

Among the properties is the 23-storey House of York. Located on the northwest corner of Smith St. and York Avenue in downtown Winnipeg, this 23-storey prestige high-rise apartment building contains 216 suites.

A few blocks away, at 70 Garry Street, is the 20-storey Plaza by the Riverside, with 199 units.

In all, the acquisition included 534 apartment and townhouse units.

In the St. James, or Assiniboia area of West Winnipeg, Greenway Gardens provides 102 two and three bedroom units of rental townhousing.

In Fort Garry, near the University of Manitoba, your Company holds a 50% interest in a 30 unit apartment building and a 42 unit townhouse project on Southpark Drive.

In Selkirk, Manitoba, 22 miles from downtown Winnipeg, the company owns Hyland Park, a 44 unit rental project.

The final portion of the acquisitions is a 25% interest in the Canadian Indemnity Building, an office building near Portage and Main Streets in the heart of Winnipeg.

The acquisition is a positive step in our endeavour to expand your company's asset base. We do not, at this time, contemplate the extension of our client/developer operations to Winnipeg. The Bestlands Management will continue to operate all these properties under the acquisition arrangement.

Preferred Share Issue

The Preferred Share Issue which was referred to during the Annual Meeting by Kenneth D. Rogers, Chairman of the Board, was duly approved and accepted by the Securities Commissions in Alberta and British Columbia in early June.

The offering comprised 100,000 10% Second Preferred Shares, priced at \$100 per share; and 1,000,000 Share Purchase Warrants to purchase a maximum of one common share each. The issue was offered in units of 25 Second Preferred Shares, Series A, and 250 Share Purchase Warrants. The offering was made by prospectus only and was sold by the sales staff of the company's subsidiary Equivest Ltd.

While this issue was sold only in the provinces of Alberta and British Columbia, the response to date has been excellent. The abilities of the company's unique sales force are well illustrated by the successful sale of this issue.

The results of this sale are not reflected in the company's balance sheet, since it took place subsequent to June 30th.



Dividends

As indicated in our previous interim report, the Directors elected to pay dividends on common shares on a quarterly basis rather than annually, as in the past. The second quarterly dividend of .6¢ (six-tenths of one cent) was declared August 1, 1977 payable to shareholders of record as at July 18, 1977.

Appointment to the Board of Directors

The Board of Directors are pleased to announce the appointment of Mr. Hallet (Hal) F. Hallatt, LL.B. to the Board effective June 8, 1977. Mr. Hallatt is a partner of the law firm of Hallatt, Sullivan, Smith, Stewart and Gow, Victoria, B.C., and has already proven a valued asset to your company's Directorate. The addition of Mr. Hallatt is an indication of the company's growing impact in British Columbia.

Sales and Marketing

The ability of the sales force has always been a major strength of the company, and efforts are continuing to expand this sales force rapidly. At this time the company has 67 direct sales people, and is establishing a new sales operation in Victoria, B.C., to complement our new successful real estate development operations in that city.

Real Estate Development

Abacus now has 50 separate projects in various stages of development in 8 cities throughout Alberta and B.C. While most of these projects are residential complexes on behalf of our clients, the emphasis is continuing to grow on development of commercial projects.

Outlook

Management plans to utilize the funds raised from the issuance and sale of the preferred share issue to continue development of our asset base. We are confident the remaining six months will see continued record growth in all Divisions of the Company.

Cordially yours,
June 19, 1977

Kenneth D. Rogers
William H. Rogers

On the behalf of the
Board of Directors

Abacus Cities Ltd., Financial Highlights

	Six Months Ended June 30 1977	Increase	Six Months Ended June 30 1976
Gross revenues	\$33,665,464	199%	\$11,255,330
Net earnings	2,182,128	28%	1,706,720
Cash flow	4,170,167	32%	3,161,825
Net earnings per share	0.15		0.13



Abacus Cities Ltd.

Consolidated Balance Sheet as at June 30, 1977
(unaudited)

ASSETS	June 30 1977	June 30 1976	December 31 1976
Cash	\$ 1,053,902	\$ 194,724	\$ 3,583,442
Cash in trust	481,950	—	729,433
Accounts and notes receivable	4,669,503	1,866,320	3,913,795
Client projects under development	77,485,290	24,267,546	46,293,156
Revenue producing properties under development — at cost	17,576,837	4,152,260	13,736,500
Land held for future development — at cost	7,786,786	3,231,399	8,082,229
Revenue producing properties	36,072,302	7,666,018	14,217,162
Other investments — at cost	86,772	245,139	84,316
Deposits, prepaid expenses and other assets	945,330	387,368	871,823
Financing and share issue costs	259,271	83,488	173,247
Deferred client contracts	—	—	—
	<u>\$146,417,943</u>	<u>\$42,094,262</u>	<u>\$91,684,903</u>

LIABILITIES	June 30 1977	June 30 1976	December 31 1976
Bank loans	\$ 3,128,500	\$ 1,864,500	\$ 1,675,755
Trust liability	481,950	—	729,433
Accounts payable and accrued liabilities	6,610,896	3,785,765	4,174,539
Dividends payable	—	—	—
Mortgages and agreements payable	36,680,745	5,194,300	17,494,642
Client projects under development	11,039,613	2,781,703	8,525,124
Revenue producing properties under development	6,861,688	2,317,744	8,039,120
Land held for future development	30,940,057	6,810,940	12,126,279
Revenue producing properties	3,866,400	—	3,970,800
Debtenture payable	24,991,799	10,477,336	20,190,815
Client equity in projects under development	9,064,797	3,667,738	6,669,623
Deferred income taxes	133,666,445	36,920,026	83,596,130
Interest of limited partners	(135,298)	27,083	(143,465)
SHAREHOLDERS' EQUITY			
Capital stock	1,124,926	1,124,926	1,124,926
— common shares	1,200,000	—	—
— first preferred A	1,361,000	—	—
— first preferred B	—	—	—
Capital redemption reserve fund	73,560	73,560	73,560
Retained earnings	9,127,310	3,948,667	7,033,752
	<u>12,886,796</u>	<u>5,147,153</u>	<u>8,232,238</u>
	<u>\$146,417,943</u>	<u>\$42,094,262</u>	<u>\$91,684,903</u>